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Current Business Trends

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Still Growing

Yes, the West Michigan industrial economy remains on track. According to the monthly survey conducted during the last two weeks of June, NEW ORDERS, our index of business improvement, came in at +31, a modest improvement over last month's report of +27. In a similar move, the PRODUCTION index edged up to +26 from +19. Activity in the purchasing offices, the index of PURCHASES, remained virtually unchanged at +22. Perhaps because of the season, June's FINISHED GOODS INVENTORIES index drifted back to neutral at +0, down from +8. The moderating of price increases helped bring the RAW MATERIALS INVENTORIES index down to +11 from +19.

Turning as we always do to the individual industries in West Michigan, slower auto sales have resulted in most auto parts suppliers showing signs of plateauing, but no major firm has reported a significant drop in sales. In fact, a couple of firms have seen an uptick in quoting activity. The office furniture industry continues to show signs of topping out, but no decline appears to be on the horizon. Because of the apparent topping out for some of our local industries, the capital equipment market remains mixed, and the bias is still to the down side. For the industrial distributors, the summer maintenance schedules have given some firms a slight boost. With a couple of exceptions, most of the comments from all of our survey participants remain positive.

Given the continued rise in global and domestic uncertainties, it was not surprising to see that part of our monthly look at business optimism modestly backtracked for June. The West Michigan index of the SHORT TERM BUSINESS OUTLOOK, which asks local firms about the perception for the next three to six months, remained virtually unchanged at +34. Looking out three to five years, the LONG TERM BUSINESS OUTLOOK eased to +37 from +46. However, both indices remain very positive, and the anecdotal comments from our survey participant confirm that we remain on the right track as of June.

At the national level, the July 1 report from the Institute for Supply Management, our parent organization, posted a significant increase. NEW ORDERS, ISM'S index of business improvement, edged up to +30 from +25. Much as we had hoped, the PRODUCTION index shook off the springtime blues and rose to +27 from +19. ISM's overall index for June jumped 2.9 percentage points to 57.9, its highest level since August 2014.

A very different assessment of the U.S. manufacturing economy comes from the monthly survey conducted by Markit.com, the British economics consulting firm. For June, Markit's indexes of NEW ORDERS, PRODUCTION, and EMPLOYMENT remain positive but continued to slow from the month. The Markit PMI for the U.S. came in at a nine-month low of 52.0, down from May's reading of 52.7. Chris Williamson, the chief business economist for Markit, remains cautious:

"Manufacturers reported a disappointing end to the second quarter with few signs of growth

picking up anytime soon. The PMI has been sliding lower since the peak seen in January, and the June reading points to a stagnation at best in the official manufacturing output data. Forward looking indicators, notably a further slowdown in inflows of new business to a nine-month low and a sharp drop in the new orders to inventory ratio, suggest that the risks are weighted to the downside for coming months."

At the international level, J.P. Morgan's Global Manufacturing survey of 31 nations remains positive but fairly flat. Optimistic results for June from Austria, Germany, and China helped boost the indexes, but offsetting lackluster reports from the U.S., Japan, and the U.K. kept the Global Manufacturing index unchanged at 52.6. The survey author summarized his current perspective as:

"The Global Manufacturing PMI was unchanged in June and continues to point to solid, steady gains in global industry at mid-year. At the same time, firming new orders and broadly based production gains across consumer goods and business equipment suggest factory output is well supported heading into the second half of the year."

For Europe, the picture continues to brighten. Markit's June PMI for Europe came in at six-year high of 57.4, up from May's 57.0. The PMI's for Austria, Germany, and the Netherlands at now at 74-month highs. Even Greece flipped back to positive after many months of stagnation. Chris Williamson, Chief Business Economist at Markit, commented:

"Eurozone manufacturing growth gained further momentum in June, rounding off the best quarter for just over six years. At current levels, the PMI is indicative of factory output growing at an annual rate of some 5%, which in turn indicates the goods-producing sector will have made a strong positive contribution to second quarter economic growth. Exports continue to play a major role in driving the expansion, increasing in recent months at rates not seen for six years, buoyed in part by the weak euro. Optimism about the year ahead has risen to the highest level for at least five years, backlogs of orders are building up at the fastest rate for over seven years, and factories are reporting near-record hiring as they struggle to deal with the upturn in demand. As such, the manufacturing sector is clearly in an expansion mode and looks poised for continued robust growth in coming months."

For West Michigan, the employment picture continues to be a bright spot for local economy. Of the 83 counties in Michigan, the latest data from Michigan's Department of Technology, Management, and Budget, Ottawa County takes first place with the lowest unemployment rate of 2.6.

Kent County ties for third place at 2.8 percent, but Kalamazoo County's ranking slipped to tenth place at a rate of 3.3 percent. That's still not bad, given that the current Michigan unemployment rate stands at 4.2%. For our West Michigan survey, the index of EMPLOYMENT bounced back to +23 from +13. In a similar move, ISM's index of EMPLOYMENT edged up to +17 from +11. Despite the pleas from many industrial firms, skilled tradesmen in almost every category are still in short supply.

The battle with industrial inflation continues to subside. Locally, the West Michigan index of PRICES backtracked to +15 from +25. In a similar move, ISM's index of PRICES dropped to +10 from +21. Looking back a couple of months, ISM's lofty March index of +41 was driven by price increases in most big-ticket commodities like steel, nickel, copper, and aluminum. Although most major commodities now appear to be moderating in price, uncertainty still looms over the steel markets because of import tariffs being threatened by the Trump administration.

According to the June report from Automotive News, we are still seeing erosion in the sale of cars and light trucks. Dealer inventories are still bulging with unsold 2017 models, and record high dealer incentives are not having the same stimulus impact of previous months. It is obvious that slow auto sales must eventually result in cutbacks for our local auto parts suppliers. So far, not any of our local firms seem to be panicking. One survey respondent further noted that, "...business is not slowing as much as expected for the automotive shutdown period." The Michigan auto suppliers are still disproportionately tied to the Detroit Three, all of whom took a bigger hit than the rest of the

industry. General Motors posted a decline of 1.7 percent, followed by a 7.4 percent drop at Fiat-Chrysler, and a 3.8 percent weakening at Ford. However, many local suppliers have wisely begun cultivating the transplant markets, wherein the June results were different. Among the major foreign brands, Honda eked out a 0.8 percent gain, Nissan rose 2.0 percent, and Subaru came in with a significant improvement of 11.7 percent. Toyota posted a 2.1 percent gain, but Hyundai-Kia took a sharp 14.9% hit. For the entire industry, sales were down 2.9 percent, marking the sixth consecutive monthly setback for U.S. sales. Of course, the good news is that the decline in auto sales has been remarkably orderly. As Morgan Stanley's Adam Jonas noted:

"The debate at this point is not whether or not the cycle will get worse, but rather if the cycle will be more of a gradual erosion, or if the cycle is in imminent danger. Data points indicate more of a steady erosion within the deeper part of the U.S. auto cycle, with the industry still solid on an absolute basis..."

In summary, the Washington gridlock now means that promised tax cuts now appear to be months or even years away. International tension with North Korea and other parts of the world continue to be a drag on both business and consumer confidence. We remain hopeful that large consumer incentives will help clear the bloated inventories of unsold cars, and that the sales decline will remain fairly orderly. Otherwise, the economic outlook for the rest of the summer looks very positive.

JUNE COMMENTS FROM SURVEY PARTICIPANTS

"May business was up nicely from April. June looks to be down from May. The seesaw continues."

"It's still hard to fill openings for machine operators."

"Automotive conditions are still effecting how most of my customers are planning. Cars sales are holding their own but, not improving. That said, it makes suppliers nervous and not willing to spend money on expansions until things improve."

"Our fiscal year ends this month and looks like we will just make the revised (down) forecast for the current year. Next year looks about the same."

"Business is still very good. We are struggling to find skilled labor as most people are."

"The next 2-3 months look very busy."

"Short term outlook still appears to be a little weak, but beyond that looks strong."

"We had a strong first quarter, but business has slowed down, which is unusual for this time of year."

"Business is not as robust as it had been for the past few years, but we are still doing fine."

"Business remains steady. The forecast looks the same for the next several months."

"Metal price increases are being floated."

"We're hoping for some resin price relief with the price of oil being down. We are pushing for them."

"Busy, busy! "

"Business is not slowing as much as expected for the automotive shutdown period."

"We are seeing some electronic component scarcity on the horizon."

"It's been a pretty calm and stable month."

"We're holding steady."

"Pricing of steel has come down, but there is concern about the 232 cases under review by the Trump administration."

"We're getting very busy in our own shop, and keeping many suppliers busy as well."

"Things are showing good improvement. Lots of major projects are being quoted."

"Automotive is still holding its own. We're waiting on Section 232 decision to see how the steel industry will be impacted."

"We're hoping for some resin price relief with the oil being down. We are pushing for them."

"Certain forms of nickel anodes are getting tight as are crystal nickel chloride & nickel carbonate."

June 2017 Survey Statistics

	UP	SAME	DOWN	N/A	June Index	May Index	Apr. Index	25 Year Average
Sales (New Orders)	37%	55%	6%	2%	+31	+27	+35	+14
Production	34%	50%	8%	8%	+26	+19	+29	+14
Employment	26%	73%	3%		+23	+13	+26	+ 8
Purchases	32%	56%	10%		+22	+24	+26	+ 7
Prices Paid (major commod.)	18%	79%	3%		+15	+25	+38	+15
Lead Times (from suppliers)	26%	74%	0%		+26	+20	+25	+11
Purchased Materials Inv. (Raw materials & supplies)	21%	63%	16%	5%	+11	+19	+16	- 4
Finished Goods Inventory	16%	65%	14%	5%	+ 0	+ 8	- 4	- 8
Short Term Business Outlook (Next 3-6 months)	37%	60%	3%		+34	+33	+32	-
Long Term Business Outlook (Next 3-5 years)	40%	54%	3%	3%	+37	+46	+35	-

Items in short supply: Labor, qualified employees, polycarbonate, some heavy construction equipment, isocyanate, nickel, nickel anodes, crystal nickel chloride, nickel carbonate, titanium dioxide, flash memory, electronic components.

Prices on the UP side: Molded and fabricated foam, refrigerants, gravel, aggregate, trucking, corrugated, rubber, steel, stainless steel, carbon steel, flat rolled steel, paper, polypropylene resin, nylon resins, cobalt, PVC resin, computer memory, all steel alloy, corrugated containers, nylons, polycarbonate, powder paint.

Prices on the DOWN side: Salt, SEBS resin, computers, some steel, polypropylene*, steel*, fuel, aluminum, copper.

*These items are reported as both up AND down in price.

Latest Unemployment Reports

(Except as noted, data are **NOT** seasonally adjusted)

	May 2017	May 2016	Aug. 2009	20 Year Low
State of Michigan (Adj.)	4.2%	5.0%	14.6%	3.2%
State of Michigan (Unadj.)	3.7%	4.5%	14.1%	2.9%
Kent County	2.8%	3.2%	11.9%	2.1%
Kalamazoo County	3.3%	3.8%	11.1%	2.1%
Calhoun County	3.9%	4.4%	12.8%	2.7%
Ottawa County	2.6%	3.1%	13.3%	1.8%
Barry County	3.1%	3.6%	10.9%	2.2%
Kalamazoo City	4.2%	4.7%	15.2%	3.2%
Portage City	3.1%	3.5%	8.7%	1.3%
Grand Rapids City	3.7%	4.3%	16.1%	3.0%
Kentwood City	2.6%	3.0%	10.7%	1.4%
Plainfield Twp.	2.1%	2.4%	8.0%	1.4%
U.S. Official Rate (May)	4.3%	4.1%	9.6%	3.8%
U.S. Rate Unadjusted	4.1%	4.5%	9.6%	3.6%
U.S. U-6 Rate**	8.4%	9.7%	16.7%	8.0%

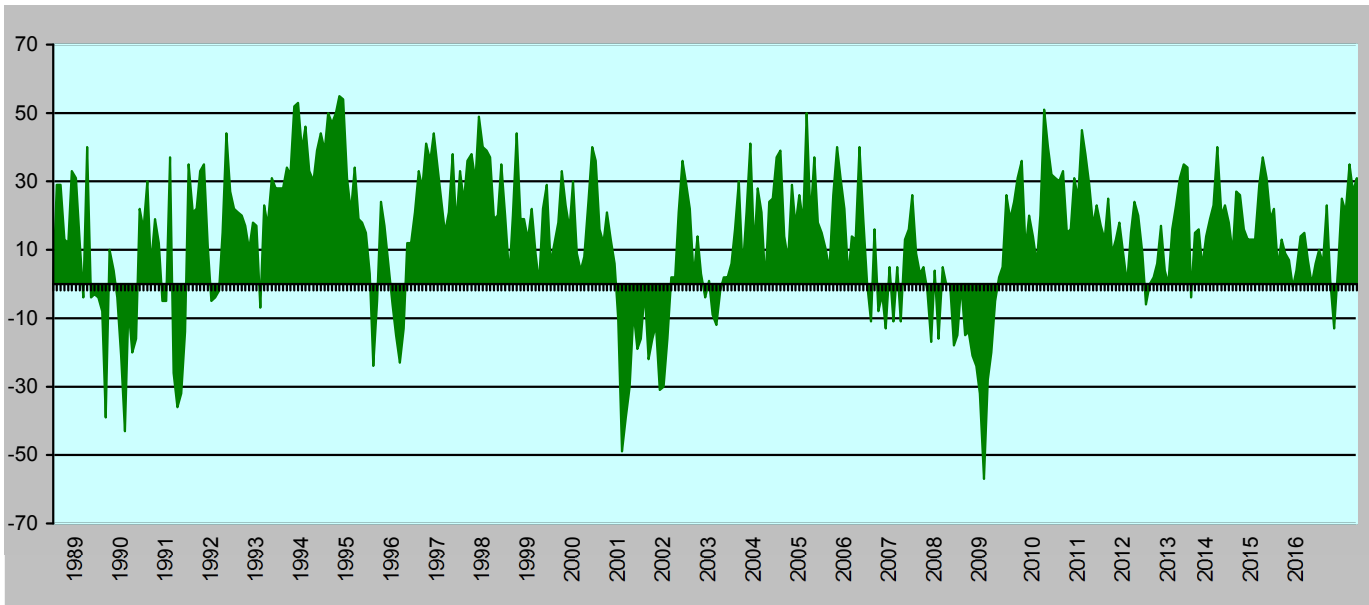
**U-6 for Michigan = 10.3% for all of 2016

Index of New Orders: West Michigan

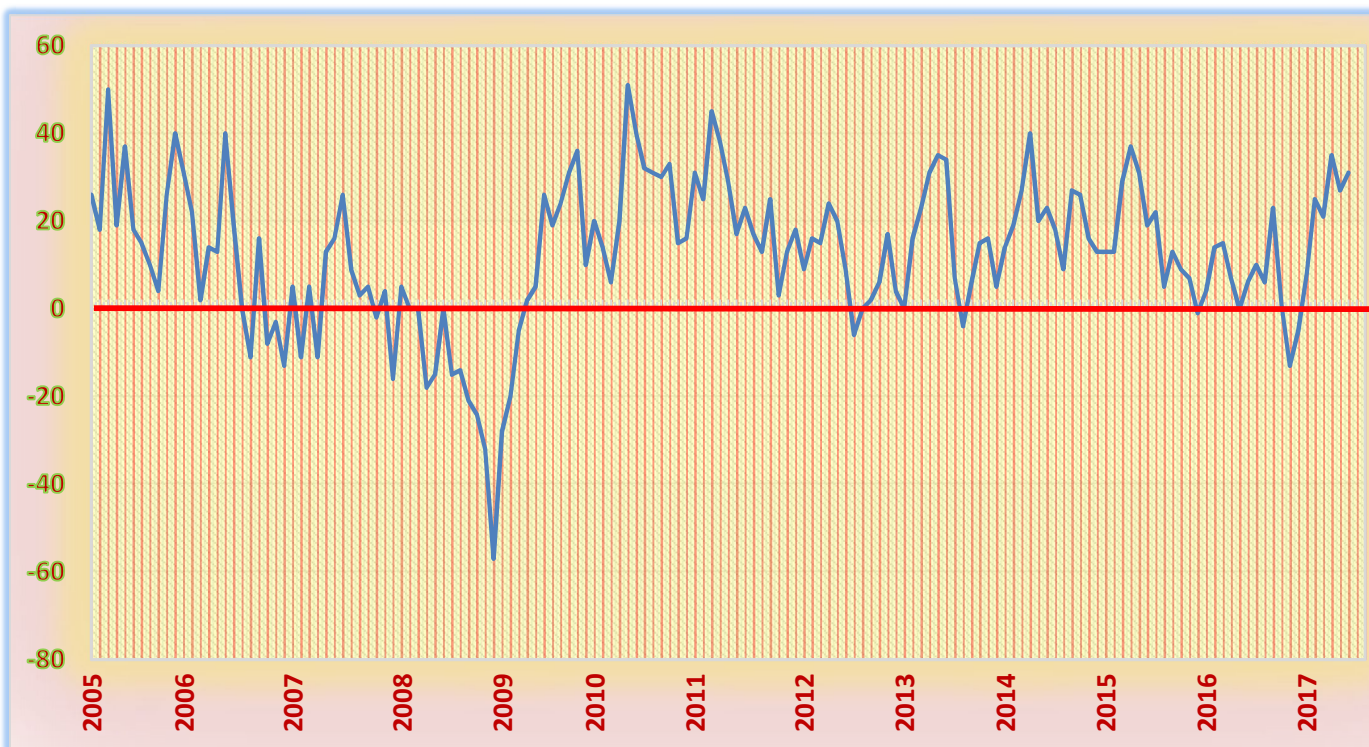
As the name implies, this index measures new business coming into the firm, and signifies business improvement or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. Since new orders are often received weeks or even months before any money is actually paid, this index is our best view of the future.

Latest Report	+31 for the month of May 2017
Previous Month	+27 for the month of May 2017
One Year Ago	+ 0 for the month of June 2016
Record Low	- 57 for the month of December, 2008
Record High	+ 55 for the month of September, 1994
First Recovery	+ 3 in April of 2009 and forward

ISM-West Michigan Index of New Orders 1988 - 2017

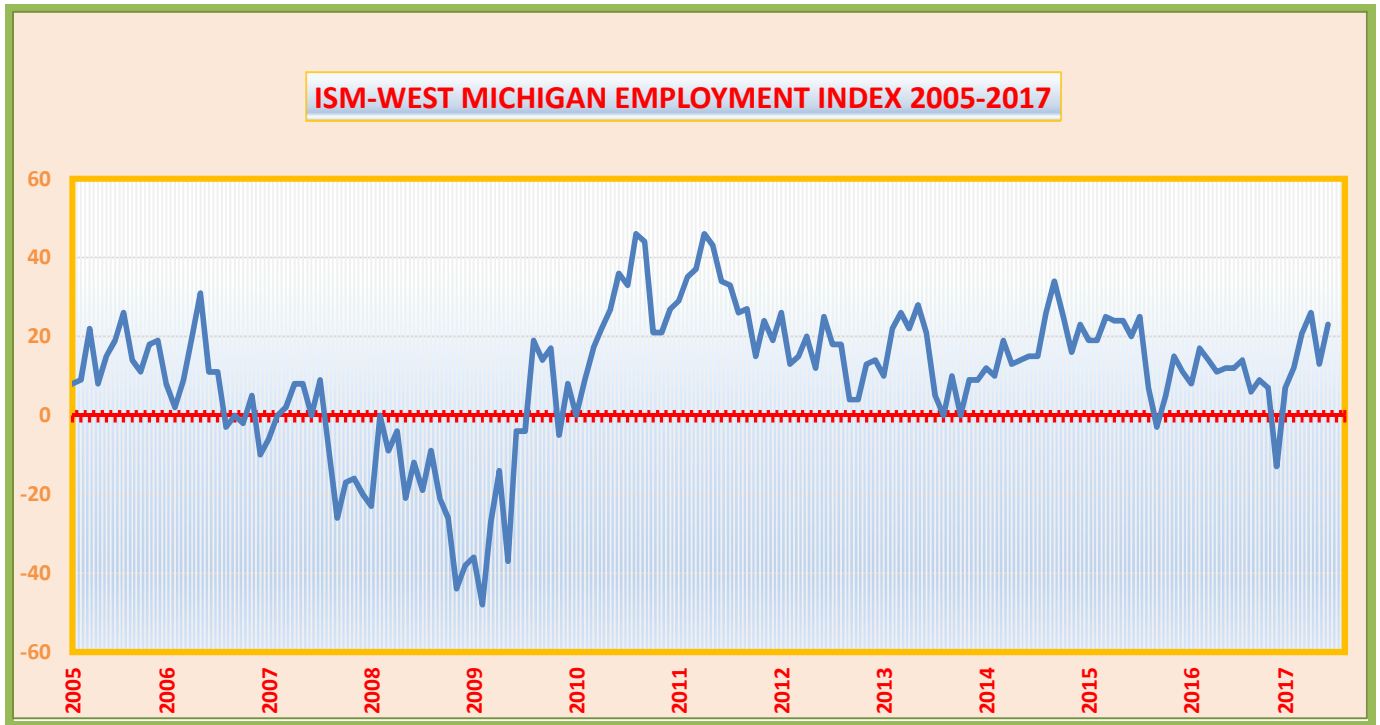


ISM-West Michigan Index of New Orders: 2005-2017 Only



ISM-West Michigan Index of Employment

The index of EMPLOYMENT measures the firm's increases and decreases in staffing, including permanent workers and temps. After economic downturns, it measure new hires as well as previous workers called back to work. When this index is positive for an extended period of time, it almost always signals a reduction in industrial unemployment for West Michigan. Normally, there is about a month or two in lag time between this report and the payroll numbers being reflected by the government statistics. However, almost all employment indexes are laggards, meaning that firms often wait until upticks in orders are confirmed before adding staff, and conversely laying off staff only after a downturn in orders appears to be certain for the foreseeable future.



ISM-West Michigan Future Business Outlook

The indexes of LONG TERM BUSINESS OUTLOOK and SHORT TERM BUSINESS OUTLOOK provide a glimpse at current and future attitudes of the business community. Traditionally, most businesses are more optimistic about the long term, although current event can result in perceptions changing very rapidly. Both short and long term attitudes reflect current business conditions, and are usually higher when sales, production, and employment are positive.

